UNITED NATIONS
WORLD ECONOMIC SURVEY

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$28 BILLION DRAINED OUT OF LATIN AMERICA IN 1989
ECONOMIC DECLINE FORECAST FOR EASTERN EUROPE IN 1990

Central European Payments Union Proposed

Global economic growth, which slowed in 1989, is expected to slow further during 1990, according to the United Nations *World Economic Survey 1990*, released today.*

The *Survey* indicates that per capita income in developed market economies continued to rise appreciably in 1989, whereas in developing countries the increase was only marginal. Economic growth in Eastern Europe and the Soviet Union came to a virtual halt in 1989.

World trade maintained much of its recent buoyancy and grew by 6.7 per cent in 1989, marking the fifth consecutive year in which the increase in world trade exceeded the increase in world output.

The "Brady Plan" is not solving the debt problem of the heavily indebted countries, the *Survey* concludes. Latin America made a net transfer of $28 billion in financial resources to other countries in 1989. Africa's net receipts of financial resources amounted to only $3 billion, a decline of $1 billion.

The danger of rapid inflation in the reforming socialist countries is a major concern, requiring prudent monetary and fiscal policies during the transition to more market-oriented economies.

Hyperinflation remains a threat in several Latin American countries. Stabilization policies are likely to prove costly in the short term and prospects are uncertain. Output in Brazil is expected to fall this year.

The *Survey* predicts that world oil consumption will reach a new record in 1990. The gap between sustainable production capacity and demand will narrow.

The social impact of the economic crisis in the 1980s, some factors underlying the prolonged expansion of the major developed market economies and the socio-economic progress of women are also examined in the *Survey*.

DIVERSITY OF ECONOMIC PERFORMANCES

World economic output grew by 3.1 per cent in 1989, compared with 4.4 per cent in 1988 (see table 1). The developed market economies continued their long expansion and grew by 3.5 per cent. This was lower than the 4.3 per cent in 1988, but more vigorous than had been expected.

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* World Economic Survey 1990, *published by the United Nations Department of International Economic and Social Affairs (document E/1990/55 in Arabic, Chinese, English, French, Russian and Spanish, or Sales No. E.90.II.C.1 in English, French and Spanish, available at $45 from United Nations Publications, Room DC2-853, New York, NY 10017, USA, or Palais des Nations, CH-1211, Geneva 10, Switzerland).*

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The developing countries as a group experienced a sharp slow-down in economic growth in 1989, with their increase in output declining from 4.5 per cent in 1988 to 3.4 per cent in 1989. However, economic performance varied widely by region.

The economies of South and East Asia grew by 6.2 per cent, compared to 8.2 per cent in 1988, while China's growth rate sharply declined, from 11.4 per cent in 1988 to 3.9 per cent in 1989. Latin America and the Caribbean recorded a meagre 0.7 per cent increase and per capita output fell for the second consecutive year; inflation in the region reached unprecedented levels. African countries' economies grew by 2.8 per cent in 1989, still below the rate of population growth. As a result, per capita output fell again. In West Asia, economic recovery continued with a 2.5 per cent growth rate. Economic stabilization measures caused growth to slow in the Mediterranean countries.

In Eastern Europe and the Soviet Union, output grew by only 1.2 per cent.

Investment growth was strong in the developed market economies last year and there are prospects for continued strong growth in the early 1990s, the *Survey* says. In the heavily indebted developing countries—especially in Latin America—and in sub-Saharan Africa, the already depressed share of investment in total spending fell in 1989. The level of investment in Eastern Europe fell 2.5 per cent and was stagnant in the Soviet Union.

ECONOMIC FORECAST FOR 1990 AND 1991

Global economic growth will further slow down to 2.2 per cent in 1990 and recover to 3 per cent in 1991. The developed market economies as a whole will follow this pattern. A further slow-down in developed Asian countries (4.3 per cent) and North America (1.9 per cent) will precede any resurgence of growth in those regions, while Western Europe is expected to maintain its recent pace of growth at about 3.5 per cent for the next few years. Overall, the steady economic expansion in this group of countries will be prolonged, with slightly lower inflation and above 2 per cent growth in per capita incomes.

The developing countries' growth is also expected to slow further to 3.1 per cent in 1990 but climb to 4.5 per cent in 1991. Improvements in some countries in Latin America in 1990 are likely to be outweighed by a fall in output in Brazil, but the following year should see a recovery in that country and hence an acceleration in the region as a whole. In Africa, any gains are likely to be modest over the next two years and not enough to offset population growth. Growth in the economies of Asia is expected to slow to 5.5 per cent in 1990 but the region will continue to be the fastest growing. China is likely to resume growth, though at a more modest pace than in the 1980s. If the price of oil maintains or improves upon its 1989 level, countries in West Asia should continue the revival of growth witnessed in 1989.

Output in Eastern Europe and the Soviet Union is likely to fall by more than 1 per cent in 1990, followed by near stagnation in 1991.

CONTINUING FINANCIAL DRAIN OUT OF DEVELOPING COUNTRIES

Developing countries as a whole made a net transfer of $32 billion in financial resources to other countries in 1989, $7 billion more than in 1988 (see table 2). Most of the increase was due to larger flows from major energy-exporting countries. Excluding these countries, the net outflow fell from $41 billion in 1988 to $36 billion in 1989.

Latin America transferred $28 billion to other countries in 1989, $6 billion more than in 1988. This meant that $28 billion of domestic saving was not available for investment in Latin America.

Africa received $3 billion in net transfers, a billion dollars less than in 1988 (excluding Libya and South Africa). In 1981 and 1982 the net transfer to Africa had been $14 billion or more.

In both regions and in other heavily indebted developing countries, net transfers pose a serious problem because they occur in the context of declining per capita income and low investment levels domestically.

In contrast, the four rapidly growing economies of Asia—Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China—transferred $16 billion abroad in 1989, as their rapid economic growth and

high savings rates created more financial resources than the domestic economies could absorb.

The year 1989 saw a reduction in the flight of capital from developing countries and in certain cases, notably in Mexico, a return of some flight capital. Arrears on foreign interest payments by developing countries rose, however. Official lending to developing countries rose substantially in 1989 and exceeded interest paid to official creditors for the first time since 1986. Medium-term lending by commercial banks to capital-importing developing countries was $36 billion less than debt-service payments, an all-time high.

"BRADY PLAN" FALLS SHORT AS SOLUTION TO DEBT CRISIS

The "Brady Plan" on debt reduction "is thus far not providing debtor countries with enough relief in their net transfer of financial resources to take them out of their debt trap," the *Survey* concludes.

Under the plan, it was expected that the commercial bank debt of heavily indebted middle- and low-income countries would be reduced voluntarily through negotiations in which bank creditors would reduce their claims in return for partial guarantees on the remainder. The costs were to be underwritten by loans from the IMF, the World Bank and the Government of Japan, as well as from the reserves of debtor countries themselves.

The bell-wether Mexican agreement did not produce an interest-service ratio that is regarded by the international banking community as within the limits for normal lending operations. Net debt reduction was too mild for any improvement in the country's debt-to-GNP ratio, and has not restored Mexico to creditworthiness. In the Philippines, the hope that $1 billion in fresh resources would be contracted turned out to be over-optimistic. The Costa Rican agreement did not include a new money option at all.

"It might therefore be opportune," suggests the *Survey*, "to try to reach a new high-level intergovernmental understanding on debt which would give strong expression to the mutual interest of creditors and debtors in restoring debt-servicing capacity and an acceptance of the need to postpone regularizing debt-servicing obligations until there has been progress on adjustment." The alternative is default or possibly political disarray, the *Survey* warns.

CENTRAL EUROPEAN PAYMENTS UNION PROPOSED

The *Survey* proposes the establishment of a Central European Payments Union, akin to the European Payments Union set up after the Second World War, as a temporary measure to assist the reforming Eastern European countries in their transition to market-oriented economies with fully convertible currencies.

The Payments Union would receive all inter-member claims for payment for imports. At the end of each accounting period, say a month, the Union would clear all claims and the balances would be settled through a combination of hard currency payments and claims on the Union.

Surplus countries would receive a larger share of hard currency than deficit countries would pay, encouraging intra-regional exports. Over time, an increasing proportion of the imbalances would be settled in hard currency payments themselves until, at the end of the life of the Union, all payments would be made in hard currency, making the Union redundant.

The currency unit of the European Monetary System of the European Community might serve as the currency unit of the Payments Union. Such a choice would invite the Community to assume a major role in financing the Union's initial capital, estimated to be small, and seeing to its success. The countries on the fastest reform track—Czechoslovakia, the German Democratic Republic, Hungary and Poland—would be more likely to become initial members of the Union.

INFLATION AND ECONOMIC REFORM IN SOCIALIST COUNTRIES

Inflation, the *Survey* finds, is an inevitable consequence of the market-oriented economic reform under way in the socialist countries.

Money supply is excessive and consumer goods are scarce. Monetary and fiscal policies as well as institutions and policy instruments needed for macro-economic co-ordination are still inadequate. There is a need to reset prices to reflect underlying costs and

scarcities and to rectify the imbalances inherited from the administrative economic model.

To deal with the inflationary pressures, the *Survey* suggests measures to mop up excess liquidity, such as the creation of new financial and real assets for households, the setting of realistic foreign exchange rates, the sale of State-owned or social property, and monetary reform. Enforcement of financial autonomy in State-owned firms and elimination of budgetary deficits are needed to rectify current macro-economic imbalances. Tighter monetary policies may also have to be adopted.

"Policy makers," says the *Survey*, "should primarily be concerned with mitigating the adverse income-effects, particularly for the poorest layers of the society, of such inflation and ensuring that competition proceeds with minimal abuses."

TIGHTER OIL MARKET FORECAST FOR NEAR FUTURE

World oil consumption has been increasing steadily in recent years. Excluding Eastern Europe and the Soviet Union, it reached 52 million barrels per day in 1989, the highest level since 1979. Developing countries have accounted for 60 per cent of the increase since 1986. Meanwhile, crude oil production has grown only in OPEC countries and in non-OPEC oil-exporting developing countries. In the developed market economies, production dropped by 1 million barrels per day, mainly due to a drop in U.S. output. As a result, surplus capacity in the world has declined.

Most future increases in oil supplies are expected to come from the OPEC countries, which will need considerable investments to expand production capacity. The *Survey* suggests that given the lead time necessary, it would be desirable for consuming and producing countries to enter into arrangements to increase the security of investments, supplies and markets and thereby avoid future oil shortages.

INADEQUATE POLICY ON ROLE OF WOMEN

Bringing together diverse international data, the *Survey* finds that participation of women in formal economic activity is rising, but that women continue to be paid considerably less than men for similar work. Women have greater economic opportunities in urban than in rural areas and tend to benefit from urbanization.

Women make up a disproportionate part of unpaid salary workers, often a major part of the agricultural work-force in developing countries. Also, women's informal sector activities are indispensable for the survival of many families. However, the *Survey* concludes that policy makers "continue to focus on the needs of organized male workers and on ways to provide employment for men considered to be main bread winners".

TABLE 2. NET TRANSFER OF FINANCIAL RESOURCES OF GROUPS OF DEVELOPING COUNTRIES, 1980-1989[a]

(Billions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989[b]
Surplus energy exporters	−91.4	−44.6	2.0	26.4	17.8	11.5	28.7	11.8	15.8	5
Capital−importing economies of which	31.9	49.1	31.0	−5.9	−33.0	−24.4	−16.5	−47.8	−40.8	−36
Africa[c]	..	14.8	13.9	7.7	1.9	−1.5	5.4	−0.2	3.9	3
Latin America and the Caribbean	11.4	14.0	3.4	−25.6	−35.2	−31.4	−15.0	−19.3	−22.4	−28
Four recent surplus economies in Asia[d]	6.9	3.9	−0.3	−4.1	−8.3	−10.9	−22.7	−28.5	−23.4	−16
Other Asia and Europe	13.7	16.4	14.0	16.1	8.5	19.3	15.8	0.2	1.0	4
All developing countries	−59.5	4.5	33.0	20.5	−15.2	−12.9	12.1	−36.0	−24.9	−32

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on IMF data, official national and other sources.

[a] Expenditure basis (negative of balance on payments of goods, services and private transfers, excluding investment income).

[b] Preliminary estimate.

[c] Excluding Libyan Arab Jamahiriya and South Africa.

[d] Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.